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SUBJECT: Turkmenistan's President Focuses on Hydrocarbons in Cabinet Meeting

Refs: Ashgabat 260

Summary

11. (SBU) President Gurbanguly Berdimuhammedov mapped out the short-term petroleum sector development objectives for 2007 during his weekly cabinet meeting on March 24. The president emphasized Turkmenistan's need to work with foreign investors and companies to improve the country's internal infrastructure and to ensure a profitable future. Berdimuhammedov's realistic petrochemical roadmap for 2007 was broad in scope. Specific details were provided by the Deputy Chairman for Oil and Gas' projected production figures for the year. Earlier in the month, the president established the State Agency for the Management and Use of Hydrocarbon Resources under the President of Turkmenistan, resurrecting the internationally popular Competent Body for the Use of Hydrocarbon Resources under the President of Turkmenistan that was dissolved by former President Niyazov in 2005. End Summary.

The Road Ahead for Hydrocarbon Resources

12. (U) During the March 24 cabinet meeting, President Berdimuhammedov said he considered development of Caspian Sea resources to be the top priority. He instructed officials to speed up the development of oil and associated petroleum gas deposits and construction of modern gas processing facilities. The president said that progress would require significant capital investment and continued cooperation with foreign investors and companies. He also noted the Turkmenistan-China gas pipeline as an additional priority, and said that implementation of existing contracts and agreements will require: 1) increased reserves through large-scale exploration activities, 2) rapid construction of production facilities, 3) a developed transportation system, and 4) sizable new investments.

13. (U) During the meeting, Deputy Chairman of the Cabinet of Ministers for Oil and Gas Tachberdi Tagyev announced the 2007 production targets:

- 1) approximately 80 billion cubic meters (bcm) of natural gas (50 bcm will be exported to Russia, and 8 bcm to Iran);
- 2) 10.4 million tons of oil (includes Production Sharing Agreement (PSA) operators' production);
- 3) domestic investment of 17.7 trillion manats [\$ 3.4 billion at the official exchange rate of 5,200 per \$1];
- 4) Turkmenbashi Oil Refinery processing of 8 million tons of oil (announced in the state-owned Russian language newspaper "Neutrality of Turkmenistan" on March 28).

The Return of the Competent Body

¶4. (SBU) Berdimuhammedov appointed Bairammyrat Myradov to head the State Agency for the Management and Use of Hydrocarbon Resources under the President of Turkmenistan. The agency is the new incarnation of the Competent Body for the Use of Hydrocarbon Resources under the President of Turkmenistan that was dissolved by former President Niyazov in September 2005, following the dismissal of former Deputy Chairman for Oil and Gas Yolly Gurbanmuradov. (Note: The Competent Body was established in 1997 to enforce the 1996 Petroleum Law that licensed foreign petroleum operators and governed PSAs. The Competent Body was a one-stop shop for foreign petroleum companies, but a 2005 Petroleum Law diminished the role of the Competent Body to a consultative entity that required presidential approval for all projects. In effect, Niyazov centralized all decision-making authority with himself. During 2006 and early 2007, international oil companies expressed to post their

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growing frustrations over the lack of a specific point of contact within the government for oil and gas issues. End Note.)

¶5. (U) The new agency will, among other things, be responsible for attracting foreign capital and international companies with experience in advanced technologies in exploration, production, and the processing of hydrocarbons. (Note: Additional details regarding the new agency have not been publicized. End Note.)

Tasking Industry Leaders

¶6. (U) The president instructed Turkmenogas State Concern Chairman Yagshygeldi Kakayev to complete gasification of the country's rural areas within one month; he criticized Turkmennebit (Turkmen Oil) State Concern Chairman Garyagdy Tashliyev for inadequate use of advanced technologies; and, instructed Turkmenbashi and Seydi Oil Refineries Director Tagangeldi Mammedov to increase polypropylene production and to study "the relevant proposals from Japanese companies."

Comment

¶7. (SBU) March actions taken by President Berdimuhammedov read like a script from PDAS Mann's March 3 lunch discussion with representatives from the private sector oil and gas industry: resurrect the Competent Body and increase foreign investment (reftel). With the establishment of the new agency, President Berdimuhammedov has achieved the first goal. The cabinet meeting also indicates that there is a general understanding in the Government of Turkmenistan that the development of the country's oil and gas sector is only possible with large-scale foreign involvement. However, the next important step would be to improve significantly the domestic investment climate, which is commonly characterized as closed. End Comment.

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